

# MEETING OF THE BOARD OF FINANCIAL INSTITUTIONS

June 18, 2014  
11:30 a.m.

Minutes

## **BOARD MEMBERS PRESENT:**

Bill Tingey, Dennis Hymas, Kip Cashmore, Rick Beard and Commissioner Ed Leary, and Louise Kelly is excused.

## **DEPARTMENT OF FINANCIAL INSTITUTIONS STAFF PRESENT:**

Michael Jones, Paul Allred, Tom Bay, and Sonja Long

## **OTHERS PRESENT:**

Zach King, Legislative Fiscal Analyst, and Scott Mecham, Budget Analyst, GOMB

### **1. Call Meeting to Order – Commissioner Leary**

He asked if we would do introductions as there are a couple of guests. Commissioner Leary explained which industries are represented by those on the board. He then explained the purpose of this board. A discussion was held on how people are appointed to the board.

### **2. Minutes –**

Dennis Hymas asked that on page two under his update, the word purposed be changed to proposed, twice. Dennis Hymas made the motion and Bill Tingey seconded the motion with those changes. It was unanimous.

### **3. Industry update –**

**Kip Cashmore** – He thanked the department and NACCA for inviting the small dollar lenders into their Friday morning session. They got to meet all of the regulators that were in attendance, 37 or 38 states were represented. It helped those lenders to be able to talk to those states that they do business in. After the meet and greet, they had about an hour and half question and answer session. They got an opportunity to talk about Operation Chokepoint as well. He mentioned this at the last meeting. It is an activity by the Federal Government to shut down banking sources to legal state licensed lenders. So he is continuing to fight that battle. Commissioner Leary made a few comments about Operation Chokepoint.

**Dennis Hymas** – Credit Unions are growing and doing well. Lending is kind of the big thing right now. They are seeing people paying down their debt. Right offs in most credit unions in

Utah are way down and that is good. Nationally, the risk based capital proposal has been sent out and the comment period ended on May 28. The NCUA received 2,050 comment letters regarding their proposal. Most of them are probably against the proposal. There was quite a bit of concern over the proposal. Dennis thinks that they will come up with a proposal eventually, but he is not sure what will be in that proposal. CUNA is tracking several pieces of legislation that seem to be favorable in terms of regulatory relief. Locally, the credit union association in Utah has a push on right now to encourage the credit unions in Utah to be more involved in our communities as most credit unions are community based. They have asked for the activities that we are involved in. Zach King asked about security, he said that online banking is becoming very popular. He asked if there was a percentage of who uses online banking and what is being done to ensure that security and privacy information aren't getting out there. Dennis said that we did speak about that at our last meeting. He thinks that most credit unions are taking on a major effort to try and take on security overhauls. With the advent of mobile banking, everyone has had to increase the level of security. At his credit union they used to have one individual that did security and IT operations, they now have three people that do that. Zach asked if it was up to the individual credit union to do that. Commissioner Leary said that yes, there are certain standards that each of the regulatory agencies expect them to meet, but as far as how they do it is up to each institution. Dennis said that they really stay on top of things like data breaches. Commissioner Leary said that the interesting thing is in the area of data breaches is that it is not just a financial institution's problem; it is now a retailer's problem and even a vendor's problem. He talked about some of the issues and some of the problems in trying to overcome the issues.

**Bill Tingey** – He said that there were not a lot of changes in his industry. They operate mostly in commercial insurance, not individual. He explained a bit about the insurance industry. Life and health insurance continues to increase, about 9 – 15%. As that continues, companies are deciding that it is cheaper to pay the penalty than to provide insurance, so they will stop providing that benefit. There was a discussion on why costs are going up.

**Rick Beard** – he thinks the economy is sputtering along. Loan growth is coming back but at a slow pace. The interest environment that they are in is very challenging. They don't have any non-interest income that the very large banks have. Concentration issues are always a challenge. He thinks that the small banks are going to continue to struggle with the regulatory issues that they face. Succession is a real problem in the banking industry.

#### **4. Town Hall Meeting – Tom Bay**

Tom explained that we had a discussion last month with the community bankers about how they see the future of community banking. The feedback that we received will be combined with other banks in the country and be presented at a research conference later this year. The conference will be hosted by the Federal Reserve Bank and the Conference of State Bank Supervisors. The reason for the conference is to gain a better understanding and appreciation of the community banking system and to spur a more accommodating public policy toward community banking. The banking system is mostly dominated by big national banks. A community bank is usually smaller, probably under \$1 billion in total assets, but definitely under \$10 billion. It is usually an important part of a community, area, or town. It usually focuses on small business lending to support the community's needs. The officers and directors usually have ties to the particular

community. Some of the highlights that we heard, one question was what do you consider the most promising opportunity for your bank this year: our bankers see the fairly strong economic conditions in Utah as an opportunity; small business growth will provide opportunities for community banks; also smaller community banks seem to have an advantage to customize to meet their customer's needs. However the bankers feel that the regulatory burden is limiting this ability to customize and we are taking away this advantage. They feel that over regulation leads to standardization. The banks were asked to describe the single greatest challenge to their bank: the consensus is that there are lots of challenges to community banks. One would be regulatory burden and cost. It seems to be focused mostly in the consumer compliance and mortgage area requirements. Most banks have seen costs increase with the need to hire compliance personnel and they seem to be spending substantially more time in these areas and issues. Another challenge is competition, coming from a lot of areas. It was mentioned that credit unions are a big competition, they have the market cornered on consumer business and are getting into small business lending. There is also competition coming from the large notational and regional banks that seem to be poaching smaller and smaller business customers and are willing to undercut rates in order to get the business. Competition is also coming from non-bank and non-traditional areas. That more and more are attracting bank customers, one example is the blue bird card from American Express, the Paypal method of payments, and branchless banking such as Ally Bank. Another challenge mentioned is customers are used to low, low loan rates over the past few years and as rates may start to increase, this may affect loan demand going forward. A major concern is from information security. This is a growing concern with all of the breaches, electronic theft that we hear about coupled with increasing customer demand for online and mobile banking; it is a constant and growing battle for community banks, and probably all institutions. Another questions asked was what new products and offerings are you contemplating, and what are the impediments to these. No new products were really mentioned, it was mentioned that the two major issues with any new product or service are information security and regulatory compliance. If you can't get these two things right your new products and services won't likely be successful. Consumers expect information security issues to be in the background, but when these issues surface and erode the confidence in using electronic means for transactions, this becomes a problem and hindrance to new offerings. Several other questions were asked and discussed but the last question was what characteristics are most important for a community bank's executive management team and board. Some of the answers were, having the ability to adapt to change while remembering the bank's core values and appropriate risk tolerances; having the ability to understand and operate within the regulatory environment; there are a lot of smart, creative people out there but it is tricky to be successfully creative in a heavily regulated industry; they need to possess integrity and have an understanding of banking; the boards need to reflect a healthy cross section of the community; the bankers thought it was important to have the right chairman in place to provide the guidance, leadership, and vision for the bank.

## **5. Budget review – Michael Jones**

Michael gave out his budget handout. He went through the handout. Michael explained the handout for Zach and Scott. As of May 31, 2014, our revenues went up \$68,000 since the last board meeting. Those increases are just the typical end of year things that come in. He went through each of the changes. Bill Tingey asked a couple of questions about the estimates for

FY15. Zach King asked about the fee reduction bill and how it would affect our budget. There was a discussion on fees. Michael continued through the handout.

## **6. Out of State Travel – Michael Jones**

Michael gave out his out of state travel handout. The items that are new or have changed are bolded. Michael went through the handout. There was a discussion on joint exams.

## **7. Current topics – Commissioner Leary**

On August 1 we will have a couple of supervisors who are retiring. We are trying to re-structure management as well as a new authorized position of a Finance Director. Commissioner Leary announced a week and a half ago to the department the management changes that we would have. He gave out a new org chart; the yellow highlighted ones are the new positions/people. The newly created position is Finance Director, he asked Michael Jones to take on that role. It is part of what he has been doing for the past 15 years. That leaves the Chief Examiner position open, Darryle Rude who has been the Supervisor of Industrial Banks will step in there. He asked Shaun Berrett to take the position of Supervisor of Holding Companies. Paul Cline will become the Supervisor of Money Services Businesses. Mark Peterson will move from holding companies to become the Supervisor of Industrial Banks. Riley Bergstedt will become the Supervisor of Credit Unions. The ones leaving are the credit union supervisor and the money services businesses supervisor. This is targeted for August 1, so it does represent a significant change for the management team. Paul, Eva and Tom all stay in their current positions.

The next thing that Commissioner Leary wanted to mention because it has gotten so much national attention is that the Conference of State Bank Supervisors decided they needed to look at the emerging payment system arena so they appointed a panel that would look at all of the emerging, virtual currency issues. He was asked to join the group of 10 State Commissioners on a task force. He gave out 3 press releases related to this announcement. They are broadly looking at anything that has to do with payments, payment transmission, and virtual currencies. They are looking at what the state's need to be doing, need to be regulating, and what do we need to step back from. They started with monthly phone calls that were actually every two weeks. They started with explaining to people what virtual currency is. Then they decided that they needed to hear from the specific industries, so as part of the State/Federal meeting they held a public hearing. They asked three different panels to speak. Those panels are described in the third handout. Those panel discussions are available online through [www.csbs.org](http://www.csbs.org). One main question in regards to the states is, are they money transmitting? The states regulate that if they are. Commissioner Leary said that our department right now feels like it is more of a commodity than a currency.

**9. Next meeting - ~~September 25, 2014~~ October 1, 2014.** Rick Beard asked if we could move the December meeting to the 18<sup>th</sup>.